

Message Text

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SUBJECT: URGENT FISCAL MEASURES ENACTED

REF: MADRID 6029

1. THE GOVERNMENT-PROPOSED EMERGENCY FISCAL MEASURES LAW HAS BEEN ENACTED BY OVERWHELMING MAJORITIES IN BOTH CHAMBERS OF THE CORTES, AND WENT INTO EFFECT ON NOVEMBER 17 FOLLOWING PUBLICATION IN THE OFFICIAL STATE BULLETIN. FINANCE MINISTER ORDONEZ HAS INDICATED THAT THIS MAY BE THE MOST IMPORTANT TAX LAW TO TAKE EFFECT BEFORE 1980, WHEN SPAIN IS TO INITIATE BROAD REFORM OF THE DIRECT TAXATION SYSTEM.

2. SPANIARDS FACE ONE OF THE LIGHTEST TAX BURDENS IN WESTERN EUROPE AND TRADITIONALLY TAKE A CAVALIER ATTITUDE TOWARDS ANNUAL INCOME DECLARATIONS. THE GOVERNMENT AND MOST POLITICAL PARTIES BELIEVE THAT THIS MUST CHANGE IN ORDER TO PROVIDE FOR INCREASED TAX
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REVENUES AND A PROGRESSIVE SYSTEM OF TAXATION. THE RESULTING EMERGENCY FISCAL MEASURES BILL WAS PRESENTED IN THE LOWER HOUSE ON AUGUST 9, AS ONE OF THE GOVERNMENT'S EARLIEST EFFORTS TO IMPLEMENT THE ECONOMIC PROGRAM IT ANNOUNCED THIS SUMMER.

3. THE MOST IMPORTANT OF THE MEASURES ENACTED ARE:

A) A PROPERTY, OR CAPITAL, TAX IS ESTABLISHED.

INDIVIDUALS WITH LESS THAN ABOUT \$50,000 IN
PROPERTY ARE EXEMPTED. THIS LEVY IS PROGRESSIVE,
WITH THE TAXABLE PROPERTY OF SPAIN'S WEALTHIEST
FAMILIES BEING SUBJECTED YEARLY TO A TWO PERCENT TAX.

B) FOR 1978 ONLY THERE WILL BE A SURCHARGE TO THE
PAYROLL TAX. THE SURCHARGE RANGES IN AMOUNT FROM
ZERO TO TEN PERCENT OF AN INDIVIDUAL'S SALARY.

C) LUXURY TAXES ARE HIGHER FOR BEVERAGES, VEHICLES,
PRIVATE AIRPLANES AND PLEASURE BOATS.

D) THERE IS A MORATORIUM ON THE INVESTIGATION OF 1976
INCOME TAX UNDERPAYMENT, PROVIDED THAT AN HONEST
DECLARATION IS MADE BEFORE APRIL 1, 1978.

E) TAX FRAUD IS NOW A CRIME IN SPAIN, IN CASES WHEREE
THE GOVERNMENT IS DEFRAUDED BY MORE THAN TWO MILLION
PESETAS (ABOUT \$24,000). A JAIL SENTENCE IS A
POSSIBILITY IF THE GOVERNMENT IS DEFRAUDED BY MORE
THAN TEN MILLION PESETAS.

F) IN LIMITED CIRCUMSTANCES TAX INVESTIGATORS WILL BE
ABLE TO OBTAIN FROM FINANCIAL INSTITUTIONS
INFORMATION ON DEPOSITS.

4. COMMENT: NOT EVEN THE GOVERNMENT IS PREDICTING A
WINDFALL INCREASE IN REAL TAX REVENUES NEXT YEAR. WE
BELIEVE, HOWEVER, THAT THESE MEASURES ARE IMPORTANT
STRUCTURAL CHANGES AND THAT THEY WILL BE FOLLOWED UP BY
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AJOR TAX REFORMS FOR 1980. STABLER

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